

USAID

OFFICE OF INSPECTOR GENERAL

Report of Audit of the Inter-American Foundation's Financial Statements for the Fiscal Year Ended September 30, 2001

Audit Report No. 0-IAF-02-004-F

March 20 2002



Washington, DC

U.S. Agency for International Development

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U.S. Agency for
International
Development

*Office of Inspector General
Financial Audits Division*

MEMORANDUM

FOR: Mr. David Valenzuela

FROM: IG/A/FA, Alvin A. Brown

SUBJECT: Report on Audit of the Inter-American Foundation's Financial
Statements for the Fiscal Year Ended September 30, 2001
(Report No. 0-IAF-02-004-F)

The enclosed Report on the Audit of the Inter-American Foundation's (IAF's) Financial Statements for the Fiscal Year Ended September 30, 2001, prepared by the firm of Gardiner, Kamya & Associates, P.C. (GKA), is provided for your information.

The auditors formed an unqualified opinion on the financial statements and the report does not contain findings or recommendations for IAF management.

The report prepared by GKA is included in its entirety in Appendix I. Your comments from the draft report and draft management report are included in Appendix II. We will issue the management report under separate cover.

We appreciate the cooperation and courtesies that your staff extended to my staff, and to the GKA staff during the audit. If you have questions concerning this report, please contact Andrew Katsaros at (202) 712-4902.

Enclosure (as stated)

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**INTER-AMERICAN FOUNDATION
(IAF)**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2001 and 2000**

and

INDEPENDENT AUDITOR'S REPORT THEREON

INTER-AMERICAN FOUNDATION (IAF)

Audit of Fiscal Year Ended September 30, 2001 Financial Statements

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Independent Auditor's Report on Financial Statements

To the Board of Directors and the President
Inter-American Foundation

We have audited the accompanying Balance Sheet of the Inter-American Foundation (IAF), a US Government Corporation, as of September 30, 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the year then ended. These financial statements are the responsibility of the management of the IAF. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the IAF as of, and for the year ended September 30, 2000, were examined by other auditors whose report dated April 2, 2001, expressed a disclaimer thereon.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IAF as of September 30, 2001, and its net costs, changes in net position, budgetary resources, and the reconciliation of budgetary obligations to net cost for the year then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in IAF Management's Discussion and Analysis (Overview) section is not a required part of the financial statements but is supplementary information required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements as amended*. Although we have read the information presented, such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 1, 2002 on our consideration of the IAF's internal control over

financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read in conjunction with this report.

/s/

Gardiner, Kamya & Associates, P.C.

February 1, 2002

Independent Auditor's Report on Internal Control

To the Board of Directors and the President
Inter-American Foundation

We have audited the financial statements of the Inter-American Foundation (IAF), an US Government Corporation, as of, and for the year ended September 30, 2001, and have issued our report thereon dated February 1, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the IAF's internal control over financial reporting by obtaining an understanding of the IAF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the IAF's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of inherent limitations internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above. We noted other matters involving the internal

control structure and its operations that we have reported to the management of IAF in a separate letter dated February 1, 2002.

In addition, with respect to internal controls related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the Agency for International Development, Office of the Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties

/s/

Gardiner, Kamya & Associates, P.C.

February 1, 2002

Independent Auditor's Report on Compliance with Laws and Regulations

To the Board of Directors and the President
Inter-American Foundation

We have audited the financial statements of the Inter-American Foundation (IAF), an US Government Corporation, as of, and for the year ended September 30, 2001, and have issued our report thereon dated February 1, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the IAF is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the IAF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the IAF.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report on whether the IAF's financial management systems substantially comply with the Federal financial management systems requirements (FFMSR), applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. The Administrative Resource Center of the Franchise Fund, Bureau of Public Debt, performs the accounting and reporting functions for the IAF. We are not the auditors of the Franchise Fund and did not perform tests of compliance with the FFMSR using the implementation guidance included in Appendix D of OMB Bulletin No. 01-02.

Those tests were performed by other auditors whose report has been furnished to us. Our report, insofar as it relates to FFMSR compliance, is based solely on the report of the other auditors.

The report of the other auditors on the substantial compliance of the IAF with the requirements of FFMSR disclosed no instances of substantial non-compliance with the FFMSR. Our audit tests disclosed no instances in which IAF did not substantially comply with Federal accounting standards and the U.S. Standard General Ledger requirements.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the Agency for International Development, Office of the Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

Gardiner, Kamy & Associates, P.C.

February 1, 2002



Inter-American Foundation

Message from the President

The IAF not only has met the challenges posed by two years of streamlining and restructuring. It has emerged as a stronger, leaner, more effective institution, capable of refining its purpose and focusing its efforts with greater precision than ever before.

I am pleased to introduce the IAF's Fiscal Year 2001 financial statements, which reflect this evolution in IAF management and operations. The improvements and efficiencies made possible by actions taken during Fiscal Years 2000 and 2001, including staff reductions, outsourcing of administrative functions, and increased interaction with the development and foreign policy community, are evident in the report that follows. Even more important, they augur well for subsequent fiscal years.

MANAGEMENT DISCUSSION AND ANALYSIS

The Inter-American Foundation (IAF) is a resourceful, agile, cost-effective agency efficient in its operations, innovative and effective in its grassroots and local development programs. The IAF learns from its experience, and uses the lessons learned to improve its own grantmaking decisions and to advance the knowledge and success of development practitioners, donors, and policy makers.

Mission and Organizational Requirements

Congress created the IAF in 1969 to carry out the following mission on behalf of the American people:

- A. Strengthen the bonds of friendship and understanding among the peoples of this hemisphere;
- B. Support self-help efforts designed to enlarge the opportunities for individual development;
- C. Stimulate and assist effective and ever-wider participation of the people in the development process;
- D. Encourage the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere.

The four statutory goals outlined above provide the framework for the IAF's Strategic Plan and Annual Performance Plan. The IAF carries out its work based on three main instruments: grant-making, results measurement and dissemination, and learning activities.

Central to the IAF's approach to development is its posture of responsiveness. IAF neither designs nor implements projects. Rather, it responds with attentiveness, analysis, and, when approved, grant funds for development ideas and projects designed by community level organizations and local non-governmental organizations in Latin America and the Caribbean. Listening to and supporting the best development ideas coming from the grassroots is the most important way in which IAF achieves all four of the goals assigned to it in the original legislation.

The IAF seeks to reflect the values it fosters. In both the programs it supports and its internal processes, the following principles are essential: innovation, partnership, self-sufficiency, democratic practices, and social responsibility.

Performance Goals, Objectives, and Results

Grants promote the formation of partnerships among grassroots and private organizations, local governments and businesses to define and resolve issues of local concern that help reduce poverty and improve the quality of life of people.

The IAF's Grassroots Development Framework provides each grantee with a means of setting goals to be achieved in the development project and provides a balanced mechanism for reporting results. This information is aggregated to permit broader analysis.

The networking of persons and the building of linkages help small producers gain access to markets and forge partnerships for mutual benefit. Both local and international businesses are critically important stakeholders in their respective communities and should play an active role for the betterment of the community. In this respect, the IAF continues to seek out a broad range of relationships with corporations and other businesses to bring their resources and ideas to bear on the solutions of local problems.

The strengthening of democracy, in addition to building strong national institutions that can guarantee the rule of law, also requires engaged and active citizens at the local level.

In this respect, the IAF's role at the grassroots and local level is making a far-reaching contribution to forging more democratic, just, and less impoverished countries in Latin America and the Caribbean.

Through grants, the IAF encourages innovative self-help and helps to build the institutional capacity of grassroots organizations to address the social and economic needs of their members. The IAF approves grants using the following steps:

1. **Call for Proposals.** The IAF announces its grant criteria for each fiscal year and establishes deadlines for the receipt of project proposals. Normally, the IAF will receive, review, and approve new grants during two grant cycles each fiscal year.
2. **Receipt of Grant Proposals.** Grants proposals are received by the due date for each cycle and logged in master lists of proposals detailing the names of the proponents, their addresses and telephone numbers, title of the proposal, and amount of funds requested.
3. **Screening and Pre-Selection of Proposals.** Within two weeks following the due date for receipt of proposals for each funding cycle, the Program Office, with the participation of the Executive Office and the Offices of the General Counsel and Learning and Dissemination, reviews the proposals received in each cycle and selects those proposals which appear to meet the IAF's funding criteria. Usually, not more than 10 percent of proposals are selected.
4. **Field Review of Proposals.** IAF Representatives travel to the countries from which pre-selected proposals were received to meet the proponent organizations, and to assess the merits of the proposal and the capacity of the proponent organization to carry out the proposed activities. During this visit, IAF Representatives also meet intended beneficiaries, ascertain the extent to which counterpart funds have been committed to the project, and conduct a broad inquiry regarding the credentials and merits of the proponent organization. IAF Representatives also consult with the United States Embassy and the United States Agency for International Development officials regarding the proponent organizations and share a list of the organizations that are under serious consideration for funding.
5. **United States Embassy Concurrence.** For each proposal selected for final review, the Program Office sends to the United States Embassy in the country where project activities will take place a one-page summary. The document includes a detailed description of the proponent organization and the proposed project activities. Grants are awarded by the IAF only after the appropriate Embassy has provided its concurrence in writing regarding the suitability of the proponent organization to receive a grant from the United States Government, and the compatibility of the proposed activities with United States foreign policy interests. Embassies are asked to provide concurrence within 30 days of the submission of the summary document.
6. **Team Review.** All pre-selected proposals that have been successfully reviewed after having been visited in the field are submitted to "term reviews," including the participation of the presenting IAF Representative, the Program Director, one or more Representatives from other countries, and representatives from the Office of General Counsel and Learning and Dissemination.
7. **Regional Director Review.** Following a successful team review, including responses to all pending questions, the Program Director examines each proposal in detail. The Program Director may approve funding if the grant is for \$300,000 or less. If the grant is for more than \$300,000, the Program Director submits it for the review of the Vice President for Programs.
8. **Vice President for Programs Review.** Grants of over \$300,000 must be approved by the Vice President for Programs.
9. **General Counsel Review.** All recommendations for approval are reviewed by the Office of General Counsel.

10. **Presidential Review.** All proposed grants for more than \$500,000 must be approved for funding by the President of the IAF. The President is the sole IAF officer with authority to obligate funds for grants and other actions—regardless of size.
11. **Board of Directors and Congressional Oversight Committee Concurrence.** All approved grants are subject to the concurrence of the Board of Directors and the applicable Congressional oversight committees. A public statement detailing the proposed activities of each project is forwarded to the Board of Directors and Congressional oversight committees for review and comment. If no question or objection has been raised during the fifteen-day waiting period, the grant is awarded.
12. **Embassy Notifications.** A copy of the public statement for each grant awarded is sent immediately to the United States Ambassador to the beneficiary country. Another copy of the public statement is sent to the beneficiary country's Ambassador to the United States.

Illustrative Projects Concluded in Fiscal Year 2001

Grupo Ecológico Sierra Gorda I.A.P. (GESPIAP), Mexico

The IAF contributed \$246,300 to GESPIAP's two-year program of environmental education, natural resources conservation, and small enterprise development to benefit 16,000 school-children from 200 schools, 1,800 low-income women, and numerous communities in the Sierra Gorda Bio-Reserve. The project has been so successful that President Vicente Fox has deemed it a model for Mexican national development policy and practice. Covering soil recovery, endangered species, reforestation, recycling, and urban sanitation, the project has now attracted significant resources from other major donors, including the World Bank.

GESPIAP trained low income women in ceramics, weaving, candle making, woodcarving, carpentry, and the production of soaps and creams. GESPIAP thus combines ecological concerns and economic development—a formula key to sustainable preservation and economic growth.

Fundación para la Capacitación Integral Angostura (FUNDACIÓN ANGOSTURA), Venezuela

The IAF and Deltaven, an affiliate of Venezuela's national petroleum company (PDVSA), each contributed approximately \$145,000 to a FUNDACIÓN ANGOSTURA training project designed to alleviate the problematic educational and occupational situations of the youth of Ciudad Bolívar as well as to reverse the deterioration of the historic buildings that are part of the cultural patrimony of the city—declared a national historic monument in 1978—by training program participants in architectural restoration and preservation, among other skills.

Trainees successfully completed training in tourism (18 young women); learned specialized construction techniques, including masonry, blacksmithing, carpentry and electricity (104 young adults); partially restored two historical buildings exhibiting the unique local architectural style; incorporated many new skills—including use of traditional materials to build a model house; improved language use and math skills; entered the labor force through occupational internships and, in several cases, through paid work; donated and connected a street lamp, providing light to a street that had been without it for 25 years; and engaged in several projects beyond those originally envisioned.

Grants Funded in Fiscal Year 2001

In Fiscal Year 2001 the IAF funded \$8,751,048 in grants of appropriated funds and \$5,123,322 in grants of Social Progress Trust Funds. The grants are divided among primary program areas as follows:

Food Production/Agriculture:	20 grants for a total of \$4,046,000
Business Development/Management:	29 grants for a total of \$6,292,000
Education/Training:	16 grants for a total of \$2,661,000
Community Services:	3 grants for a total of \$ 571,000

Ecodevelopment: 2 grants for a total of \$ 304,000

Grants were divided geographically among Argentina, Bolivia, Brazil, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Latin America (regional), Mexico, Nicaragua, Panama, Perú, and Venezuela.

Evaluation and Dissemination

The IAF is committed to sharing the experiences and learning of grantees. By tracking results and studying organizations, the IAF is able to gain insight into what works in the development process.

The IAF also supports training and other programs, such as exchanges among grantees, to increase their ability to learn from each other. The sharing of knowledge among those similarly situated is a powerful force in development. Moreover, many former IAF fellows and other trainees are now in positions of national and international authority.

Fiscal Year 2001 Analysis of Financial Statements and Stewardship Information Systems, Controls, and Legal Compliance

During Fiscal Year 2001, IAF management consolidated the shift initiated during Fiscal Year 2000 toward a more externally oriented, programmatically focused organization. Management's overarching concerns for Fiscal Year 2001 included restructuring and completing the outsourcing of administrative functions, reconfiguring administrative staffing patterns, improving financial management, and increasing emphasis on program management and development, and raising the IAF profile.

Outsourcing and Restructuring Administrative Functions and Services

Management extensively restructured the performance and delivery of administrative functions and services in Fiscal Year 2001. The office space the IAF occupied was consolidated to one floor rather than two. Obsolete and excess furniture and equipment were inventoried and returned to U.S. Government stock.

Having outsourced procurement, contracting, accounting, certification, disbursement, and travel management functions to the U.S. Department of the Treasury, Bureau of Public Debt ("BPD") during Fiscal Year 2000, the IAF completed the outsourcing process by franchising personnel and Equal Employment Opportunity functions to the U.S. Department of the Interior during Fiscal Year 2001.

The outsourcing process entailed a limited in-house reduction in force, following notable attrition the preceding year. These factors together enabled management to eliminate one-third of the previous administrative slots. The change yielded annual savings well in excess of one-half million dollars.

Staff Redeployment

In addition to conserving resources, the outsourcing of administrative functions permitted the IAF to redeploy existing FTEs (staff slots assigned by OMB) to work in program development and management. That area, which includes all aspects of grantmaking, publications, evaluation, and monitoring, filled approximately 60 per cent of vacant positions remaining in the wake of significant attrition during the previous year. It added one position. The IAF concluded the fiscal year with approximately one administrative staff member per four program staff, whereas the ratio had been one administrative staff member per two program staff the previous year.

Program Management and Development

Having fortified the program ranks, the IAF embarked upon a revitalization of the program area. The process was manifold. First, internal procedures were streamlined. With the assistance of BPD, the IAF began issuing electronic disbursements in most countries. Management decentralized approvals and decision making in a number of areas

including small contracts and training. The IAF greatly simplified both the grant agreement itself and the procedures used to process it. The Oracle-based grant management and tracking program under development at the IAF since 1999 became more fully integrated as it reached finalization.

Second, program staff helped to determine the future course of the IAF program by participating in a strategic planning exercise for the coming five years and took the initiative to promote new ideas and activities. For example, several members of the program staff launched two significant conferences on innovative development techniques, including building democracy from the grass roots. Others explored new territory and systematized the old in the area of social investment—work which will form the basis for a series of seminars and international meetings to be held in Fiscal Years 2002 and 2003 in conjunction with Harvard Business School and others. These efforts reflect a climate of renewal and enthusiasm.

Third, during Fiscal Year 2001 the IAF continued its history of innovation by supporting several projects that channel remittances—the funds migrants send to their home communities overseas—toward productive local development, as well as several partnerships that mobilize local corporate resources in the form of voluntary assessments and production agreements.

Raising the IAF Profile

Throughout Latin America and the Caribbean, development practitioners, politicians, policy makers, academics, donors, and civil society organizations know, respect, and emulate the IAF and its work. Yet in the United States few are aware of the IAF, its purpose, and its value.

During Fiscal Year 2001 the IAF began to raise its profile. Not only did the IAF sponsor conferences, IAF management delivered addresses and participated substantively in a number of fora. For example, the IAF President led the U.S. delegation to a high level meeting on decentralization convened in Bolivia by the Organization of American States.

The rebuilding of program staff is important in this regard as well. New editorial and public relations staff were engaged to overhaul the IAF website, reinstate publication of the IAF journal, *Grassroots Development*, prepare a quarterly newsletter, and make more readily and widely available the IAF's vast and continually growing collection of educational materials.

Fiscal Year 2001 was notable for the IAF in that both the Administration and the Congress endorsed its mission and raised its funding. The IAF is expanding efforts to inform Congress, fostering understanding of the IAF approach and building support for a solid base of funding.

The IAF also invited, and was pleased to receive the acceptances of, an impressive new set of IAF Advisory Council members. This talented group will contribute greatly to increasing the profile, standing, and centrality of the IAF in the U.S.

Looking Forward

The IAF has been a major player in the United States effort to help build strong democracies based on citizen participation and empowerment at the local level in Latin America and the Caribbean. Through self-help and the strengthening of democratic institutions, IAF continues to fulfill the mission Congress assigned to it upon its founding in 1969. In Fiscal Year 2002 and beyond, the IAF will focus more specifically on the links among democracy, partnerships, self-help projects, and community participation. Understanding and fostering these relationships will remain not only relevant but fundamental to a prosperous, peaceful, and just community of nations in the Western Hemisphere.

Beginning in Fiscal Year 2002, the IAF is improving its web site, which will be regularly updated with information on grant results, new projects, and learning. The IAF will continue its effort to engage each year in one major topic

for special inquiry. In Fiscal Year 2001, this topic was "cross-sector partnerships" among businesses, local governments and private community organizations. For Fiscal Years 2002 and 2003, the topic will be the "sustainability of grassroots social and economic development." Finally, the IAF dissemination efforts will continue to sponsor conferences on select topics of general interest, such as corporate social responsibility and local development.

The IAF also plans to launch an initiative to cultivate greater investment and involvement of the philanthropic and corporate communities in grassroots development. The IAF is currently exploring mechanisms, partnerships, and administrative functions in connection with the initiative.

Improving Financial Management

The nature of internal financial management changed with outsourcing. Performance of the last audit in the midst of the change made the process complicated, cumbersome, and slow, leaving little time to complete the Fiscal Year 2000 audit and resulting in a disclaimer of opinion. Completing the outsourcing process and enhancing internal controls involved resolving accounting, personnel, and management issues. In-house staff members continue to perform monitoring, budgetary, and payment functions. In addition, senior staff have formed a financial management committee to guide the overall financial management process. Throughout Fiscal Year 2001 the committee focused on identifying and deobligating expired grants and contracts with undisbursed balances dating back to Fiscal Year 1983. This process yielded \$5,447,977 in newly available funds. The IAF also collected \$47,515 to liquidate an overdue receivable from a federal source. These steps constitute the last phase of the major financial management improvements initially undertaken in Fiscal Year 2000 which provide the underpinnings for the positive conclusions of the Fiscal Year 2001 audit. Refinements and adaptations will continue as and when needed.

Net Cost of Core Functions

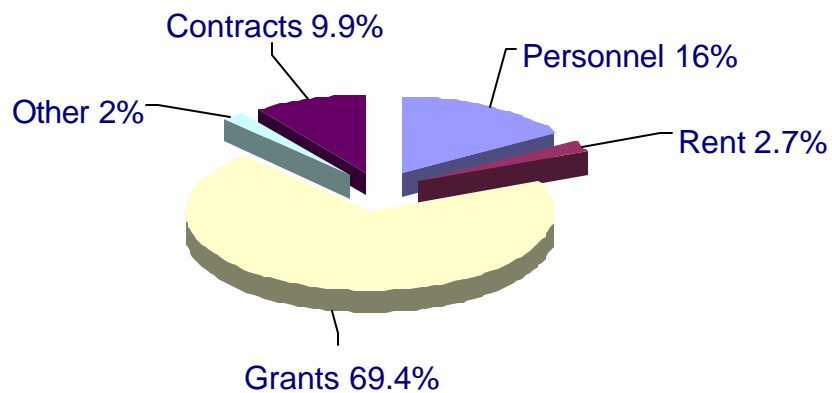
The activity reported in the Statement of Net Cost reflects the resources used by the IAF during the year. Program costs of \$21,226,201 reflected a 14.86 percent decrease from Fiscal Year 2000, a reduction of \$3,704,872 in resources used.

The decrease is the result of the consolidated shift initiated during Fiscal Year 2000 as discussed above. Personnel and Benefits decreased from \$3,798,578 in Fiscal Year 2000 to \$3,386,719 in Fiscal Year 2002. This reflects a decrease of almost 11 percent, a difference of \$411,859. In Fiscal Year 2001, Contractual Services reflected resources used of \$2,094,719. The difference of \$428,550 from Fiscal Year 2000, which reported \$2,523,269 in resources used, reflects a downward change of approximately 17 percent. A factor contributing to the lower cost of Contractual Services is the streamlining of new awards for services in Latin America and the United States.

The IAF recorded reduced costs for Rents, Communications, and Utilities. Fiscal Year 2000 recorded \$708,802 in Rents, Communications, and Utilities. As a result of eliminating under utilized space, Fiscal Year 2001 costs were recorded at \$571,576, showing a significant reduction of \$137,226.

Improved use of resources reflected improvements in costs of Printing and Reproduction, Supplies and Material, Equipment, and other miscellaneous cost categories. Grants and Subsidies noted a decreased of \$2,509,202 in Fiscal Year 2001.

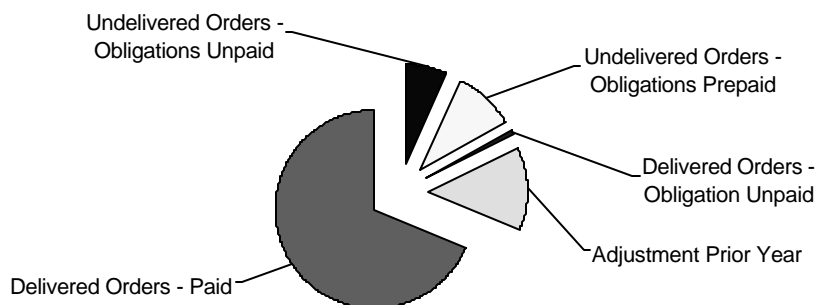
Net Cost of the IAF Core Functions



Fiscal Year 2001 noted \$24,131, 480 in Obligations Incurred. As shown in the Pie Chart below, Delivered Orders – Obligations Paid was the largest category with approximately 86 percent.

The chart below shows the net obligations incurred for Fiscal Year 2001.

Net Obligations Incurred



Fund Balance with U.S. Treasury

Total resources available from the U.S. Treasury for Fiscal Years 2001 and 2000 were \$39,644,906 and \$45,323,098, respectively. The difference of \$5,678,192 reflects management's effort to reduce carryover amounts in accordance with federal policy. It is also a result, in part, of the depletion of available resources from the Social Progress Trust Fund (SPTF). No SPTF funds were collected in Fiscal Year 2001 from the Inter-American Development Bank (IDB), administrator of the SPTF. Since these funds net against the obligations and outlays, a reduction in the fund balance with Treasury and the change in the net position at the end of the year result. See Note 2 in the Financial Statements for funding source information and Note 7 for the end of year net position.

Limitations on Financial Statements

These financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

INTER-AMERICAN FOUNDATION

Balance Sheets

As of September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
ASSETS		
Entity Assets :		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$39,644,906	\$45,323,098
Accounts Receivable, net	-	47,515
Deposit – Suspense	<u>-</u>	<u>690,332</u>
Total Intragovernmental Assets	39,644,906	46,060,945
Accounts Receivable, net	77,278	2,717,703
Advances and Prepayments (Note 9)	3,247,441	8,977
Property, Plant and Equipment, net (Note 4)	<u>84,722</u>	<u>191,568</u>
Total Assets	<u>\$ 43,054,347</u>	<u>\$48,979,193</u>
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accounts Payable	\$ 65,487	\$ 174,641
Other	<u>98,849</u>	<u>224,482</u>
Total Intragovernmental liabilities	164,336	399,123
Accounts Payable	228,168	-
Other	<u>253,537</u>	<u>482,196</u>
Total Liabilities Covered by Budgetary Resources	646,041	881,319
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Unfunded Leave	<u>194,011</u>	<u>184,715</u>
Total Liabilities	<u>840,052</u>	<u>1,066,034</u>
NET POSITION (Note 7)	42,323,583	47,925,324
Unexpended Appropriation	<u>(109,288)</u>	<u>(12,165)</u>
Cumulative Results of Operations	<u>42,214,295</u>	<u>47,913,159</u>
Net Position	<u>\$43,054,347</u>	<u>\$48,979,193</u>
Total Liabilities and Net Position		

The accompanying notes are an integral part of these financial statements

INTER-AMERICAN FOUNDATION
Statement of Net Cost
For the Years Ended September 30, 2001 and 2000

COSTS	<u>2001</u>	<u>Unaudited 2000</u>
Program Costs		
Intragovernmental	\$ 2,430,802	\$ -
Public	<u>18,795,399</u>	<u>24,931,073</u>
Net Cost of Operations	<u>\$21,226,201</u>	<u>\$24,931,073</u>

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
Statement of Changes in Net Position
For the Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Net Cost of Operations	\$ 21,226,201	\$ 24,931,073
Financing Sources (other than exchange revenue)	20,981,721	24,746,358
Appropriations Used	<u>181,299</u>	<u>-</u>
Imputed Financing	(63,181)	(184,715)
Net Results of Operations	<u>3,431,977</u>	<u>-</u>
Prior-Period Adjustment (Note 10)	3,368,796	(184,715)
Net Change in Cumulative Results of Operations	<u>(9,067,660)</u>	<u>(16,125,379)</u>
Decrease in Unexpended Appropriations	(5,698,864)	(16,310,094)
Change in Net Position	<u>47,913,159</u>	<u>64,223,253</u>
Net Position - Beginning of Year	\$ <u>42,214,295</u>	\$ <u>47,913,159</u>
Net Position - End of Year		

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
Statement of Budgetary Resources
For the Years ended September 30, 2001 and 2000

	<u>2001</u>	<u>Unaudited 2000</u>
Budgetary Resources:		
Budget Authority		
Net Transfers	\$ 11,973,600	\$ 5,947,426
Unobligated Balance		
Brought Forward, October 1	16,101,027	18,454,808
Spending Authority from Offsetting Collects		
Earned-Collected	35,000	3,486,578
Receivable from Federal Sources	(47,515)	47,515
Adjustments		
Recoveries of Prior-Year Obligations	<u>5,818,890</u>	<u>1,026,935</u>
Total Budgetary Resources	<u>\$ 33,881,002</u>	<u>\$ 28,963,262</u>
Status of Budgetary Resources:		
Obligations Incurred	\$ 24,131,480	\$ 17,095,274
Unobligated Balances Available		
Apportioned	7,591,869	10,150,557
Unobligated Balances Not Yet Available		
Other	<u>2,157,653</u>	<u>1,717,431</u>
Total Status of Budgetary Resources	<u>\$ 33,881,002</u>	<u>\$ 28,963,262</u>
Outlays:		
Obligations Incurred	\$ 24,131,480	\$ 17,095,274
Less: Spending Authority from Offsetting Collections and		
Adjustments		
Earned		
Collected	(35,000)	(3,486,578)
Receivable from Federal Sources	47,515	(47,515)
Actual Recoveries of Prior-Year Obligations	(5,818,890)	(1,026,935)
Obligated Balance, Net – Beginning of Year	29,206,721	42,821,411
Less: Obligated Balance, Net – End of Year		
Undelivered Orders	(29,291,342)	(33,266,061)
Accounts Payable	<u>(604,041)</u>	<u>-</u>
Total Outlays	<u>\$ 17,636,443</u>	<u>\$ 22,089,596</u>

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
Statement of Financing
For the Years ended September 30, 2001 and 2000

	<u>2001</u>	<u>Unaudited 2000</u>
Obligations and Non-Budgetary Resources:		
Obligations Incurred	\$ 24,131,480	\$17,095,274
Less: Spending Authority from Offsetting Collections and Adjustments		
Earned Reimbursements Collected	(35,000)	(1,695,235)
Receivable from Federal Sources	47,515	(47,515)
Recoveries of Prior-Year Obligations	(5,818,890)	(1,026,935)
Financing Imputed for Cost Subsidies	181,299	-
Other (Note 8)	<u>-</u>	<u>3,362,772</u>
Total Obligations as Adjusted, and Non-Budgetary Resources	<u>18,506,404</u>	<u>17,688,361</u>
Resources That Do Not Fund Net Cost of Operations:		
Changes in Amount of Goods, Services and Benefits Ordered but Not Yet Provided Net Decrease		
	<u>2,656,616</u>	<u>7,057,997</u>
Components of Costs of Operations That Do Not Require Or Generate Resources		
Depreciation and Amortization		
Loss on Disposition of Assets	47,560	-
	<u>6,325</u>	<u>-</u>
Total Costs That Do Not Require Resources	<u>53,885</u>	<u>-</u>
Financing Sources Yet to be provided	<u>9,296</u>	<u>184,715</u>
Net Cost of Operations	<u>\$ 21,226,201</u>	<u>\$24,931,073</u>

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the Years Ended September 30, 2001 and 2002

Note –1: Description of Entity

The Inter-American Foundation (The Foundation), a U.S. government corporation, was established pursuant to part IV of the Foreign Assistance Act of 1969 (22 U.S.C. 290f (a)). The Foundation provides financial support through grant or loan programs to local organizations in Latin America and the Caribbean for self-help developmental projects designed to improve the social and economic conditions of the people.

The Foundation is governed by a nine member Board of Directors, each appointed by the President of the United States of America, and confirmed by the Senate for six-year terms. Under the Foreign Assistance Act, six board members are from the private sector, and three are officials or employees of U.S. Government Agencies concerned with Inter-American affairs. Currently, the three U.S. Government appointees are the Assistant Secretary of State for Inter-American Affairs, the Assistant Administrator of the U.S. Agency for International Development, and the U.S. permanent Representative to the Organization of American States.

Note – 2: Summary of Significant Accounting Policies

A) Basis of Presentation

These financial statements have been prepared from the accounting records of The Foundation in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, as amended. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants.

B) Funding Sources

The Foundation's grant program is funded by (1) Congressional appropriation, (2) contractual agreement with the Social Progress Trust Fund (SPTF), and (3) donations from the private sector. No-Year appropriations remain available until expended, while multi-year appropriations are available for two years.

The Foundation has an agreement with the Inter-American Development Bank (IDB) to receive funds from the SPTF to finance part of the Foundation's grant program. The IDB is an international financial organization established to promote the economic and social development of member countries. The United States' participation in IDB is authorized and governed by the Inter-American Development Bank Act (22 U.S.C. 283). Within the Bank, the United States established the SPTF in 1961 and provided appropriations to SPTF through

1964. The Bank was designated as the administrator for the SPTF and committed the original SPTF appropriations to loans. Repayments of these loans are recycled by the IDB in accordance with the original agreement and subsequent provision for additional loans, technical cooperation programs, and financing of The Foundation.

A 1973 amendment to the Foreign Assistance Act of 1961 requires the IDB to provide funds to U. S. organizations, including the Foundation, to finance social development projects. The IDB has a contractual agreement with the Foundation to make \$44,000,000 available to the Foundation for Disbursements over six years, ending December 31, 2000. These funds are made available in foreign currencies upon request by the Foundation, subject to denomination availability and exchange controls.

C) Accounts Receivable

Intra-governmental accounts receivable represent amounts due from other governmental agencies. Governmental accounts receivable represent amounts due from non-federal entities.

D) Advances and Prepayments

Payments in advance of receipt of goods and services are recorded as prepaid charges at the time of the prepayment and recognized as expenditures/expenses when the related goods or services are received.

E) Accrued Annual Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect the current pay rates and leave balances.

F) Grant Disbursements and Administrative Expenses

Grant disbursements include payments in advance of performance under contractual obligations. Evidence of performance is determined by review of periodic expenditure reports. All Foundation expenditures for grants over \$35,000 are independently verified using the Foundation's audit guidelines. The Foundation's administrative expenses are funded solely by appropriated funds.

G) Non-Entity Assets and Liabilities

The Foundation did not hold any Non-Entity assets or liabilities as of September 30, 2001 and 2000.

Note- 3: Funds with U.S. Treasury

Entity fund balance includes balances that are available to pay liabilities and to finance authorized purchase and grant commitments. The Foundation maintains all funds with the United States Treasury.

	<u>2001</u>	<u>Unaudited</u> <u>2000</u>
Appropriated Fund	\$ 16,120,818	\$ 15,256,416
Gift Fund	175,660	520,884
Social Progress Trust Fund(SPTF)	<u>23,348,428</u>	<u>29,545,798</u>
Total Entity Funds	39,644,906	45,323,098
Non-Entity Funds	<u>-</u>	<u>-</u>
Total Funds with the U.S. Treasury	<u>\$ 39,644,906</u>	<u>\$ 45,323,098</u>

Note – 4: Property, Plant and Equipment

The Foundation's property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Foundation's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. The balance of Property, Plant, and Equipment is as follows :

Service

September 30, 2001

ADP Equipment	S.L	3 yrs.	\$ 171,380	\$ 145,699	\$ 25,681
Office Furniture	S.L	10 yrs.	<u>274,820</u>	<u>215,779</u>	<u>59,041</u>
Total			<u>\$ 446,200</u>	<u>\$361,478</u>	<u>\$84,722</u>

September 30, 2000 (Unaudited)

ADP Equipment	S.L	3 yrs.	\$ 393,663	\$ 321,942	\$ 71,721
Office Furniture	S.L	10 yrs.	<u>301,660</u>	<u>181,813</u>	<u>119,847</u>
Total			<u>\$ 695,323</u>	<u>\$503,755</u>	<u>\$191,568</u>

Note – 5: Operating Lease

The Foundation occupies office space under a lease agreement, which is accounted for as an operating lease. The lease expires on March 31, 2002. A new lease is being negotiated. Lease payments are increased annually based on the Foundation's proportionate share of the building's operating expenses and real estate taxes. Total net rental expense for fiscal year 2001 was \$448,017 (2000 - \$661,321). Future minimum lease payments for office space as of September 30, 2001 are as follows:

	<u>Amount</u>
Year Ending September 30 th 2002	\$ <u>424,424</u>

Note – 6: Pension Plan

The Foundation's employees are covered either by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement Systems (FERS). For CSRS employees, the Foundation withheld a portion of their base earnings. The employees' contributions are then matched by the Foundation and the sum is then transferred to the Civil Service Retirement Fund from which the CSRS employees will receive future retirement benefits. For FERS employees, the Foundation withholds, in addition to social security withholdings, a portion of their base earnings. The Foundation then contributes an amount which is proportional to the employees' base earnings towards their retirement. The Foundation also contributes a scaled amount towards each individual FERS employee's Thrift Savings Plan (TSP), depending upon the employee's level of savings. The FERS employees will receive retirement benefits from FERS and TSP deposits that have accumulated in their accounts.

Although the Foundation funds a portion of pension benefits under the Civil Service and Federal Employees Retirement Systems relating to its employees, and makes the necessary payroll withholdings from them, it has no liability for future payments to employees under these programs and does not account for the assets of the Civil Service and Federal Employees Retirement Systems. The Foundation does not maintain actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. The Foundation's contribution to employee pension plans for fiscal year 2001 was \$325,058.

These amounts are reported by the Office of Personnel Management (OPM) for the Retirement Systems and are not allocated to individual employers. The OPM also accounts for health and life insurance programs for retired civilian federal employees. Similar to the accounting treatment afforded the retirement programs, the actuarial data related to the health and life insurance programs are maintained by OPM and are not available on an individual employer basis. The Foundation's costs for health and life insurance for fiscal year 2001 was \$224,599.

Note – 7: Net Position

The Inter-American Foundation's net position is composed of unexpended appropriations and the cumulative results of operations. Net position as of September 30, 2001 and 2000 consisted of the following:

	<u>2001</u>	<u>Unaudited</u> <u>2000</u>
Unobligated		
(a) Available	\$ 7,658,296	\$10,150,557
(b) Unavailable	2,091,227	1,717,431
Undelivered Orders	<u>32,574,060</u>	<u>36,057,336</u>
Total Unexpended Appropriations	42,323,583	47,925,324
 Cumulative Results of Operations	 <u>(109,288)</u>	 <u>(12,165)</u>
Net Position	<u>\$42,214,295</u>	<u>\$47,913,159</u>

Undelivered Orders consists of the following:

	<u>2001</u>	<u>Unaudited</u> <u>2000</u>
Unexpended Obligations - Unpaid	\$ 29,291,342	\$ 34,597,673
Unexpended Obligations - Prepaid	3,247,440	13,032
Other	<u>35,278</u>	<u>1,446,631</u>
Total Undelivered Orders	<u>\$ 32,574,060</u>	<u>\$ 36,057,336</u>

Note – 8: Statement of Financing –Other

The Statement of Financing reconciles the Financial Net Cost of Operations with obligation of budget authority. The Foundation's Statement of Budgetary Resources is based on its SF-133 in which the Foundation reports SPTF funds obtained from the IDB as reimbursements. The Foundation had no exchange revenue in fiscal year 2000. For fiscal year 2000, the Foundation received \$3,362,772 from the IDB, which was reported in its SF-133 as reimbursement income. The Foundation did not receive any funds in fiscal year 2001.

Note – 9: Advances and Prepayments

Grant payments are recorded as an advance and amortized over the estimated useful period covered by the agreement. First time grant payments are amortized over an eight-month period. Subsequent payments are amortized over a six-month period. Prepayments are also made to select government agencies and vendors in advance of receiving the goods or service. Advances are also permitted for employee travel. Advances and Prepayments are as follows:

	<u>2001</u>	<u>Unaudited 2000</u>
Prepayments to Government Agencies	\$ 412,749	\$ -
Employee Travel	-	8,977
Grant Advances	<u>2,834,692</u>	<u>-</u>
Total Advances and Prepayments	<u><u>\$ 3,247,441</u></u>	<u><u>\$ 8,977</u></u>

Note – 10: Prior Period Adjustments

Prior Period Adjustments were recorded in fiscal year 2001 for several items that were not properly recorded in prior fiscal years. A prepayment to a government agency in the amount of \$1,482,111 was improperly expensed in fiscal year 2000. Grant Advances in the amount of \$4,809,383 were also expensed in fiscal year 2000 rather than being recorded as an advance. Accounts receivable of \$2,016,000, which had been improperly recorded in 2000, was also reversed. An extensive review of all of the asset and liability accounts was performed during 2001, which resulted in other adjustments totaling \$843,517. The net prior period adjustment totaled \$3,431,977. Assets were increased by \$3,602,722 and liabilities increased by \$170,745.

STATUS OF PRIOR YEAR FINDINGS

Internal Control Findings:

Finding No 1: IAF's Accounting for a Year-End Transfer of Funds to the Bureau of the Public Debt May Not be Accurate and Needs to be Researched

On September 25, 2000, the Inter-American Foundation transferred \$1,671,533 to the BPD for future third party contracting services. We observed that the entire amount of \$1,671,533 was expensed in fiscal year 2000, although practically no services were provided or contracted for with third parties as of September 30, 2000.

Recommendations

We recommend that the Inter-American Foundation:

Evaluate the transfer of the \$1,671,533 made on September 25, 2000 to ensure that the entry was properly accounted for. Subsequently, IAF should make any necessary adjustments to ensure the proper recording and presentation of this transaction in the general ledger and the Principal Financial Statements.

STATUS FOR FY 2001 AUDIT:

- Of the \$1.6 million, \$180,000 was recorded as an expenditure for services rendered by the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) in FY 2000.
- The remaining \$1.4 million was recorded as an advance from IAF to the ARC for services to be rendered in FY 2001 and FY 2002.
- ARC has recorded this transaction under two different appropriations through a general ledger entry debiting an advance (asset) account and crediting an unexpended appropriation account, on the proprietary side, and by debiting downward adjustment of a prior period expenditure and crediting unexpended obligations – unpaid on the budgetary side.

This condition was resolved in FY 2001.

Finding No. 2: Fund Balance with Treasury

During fiscal year 2000, IAF reconciled the Fund Balance with Treasury for five of the required twelve months. Each reconciliation reported unreconciled differences. The dates the reconciliations were prepared and the months covered are as follows:

<u>Month</u>	<u>Date Prepared</u>
October 1999	May 11, 2000
November 1999	March 28, 2000
December 1999	January 18, 2001
January 2000	January 15, 2001

September 2000

December 5, 2000

Our review of the reconciliation for September 30, 2000 disclosed total differences between IAF and the U.S. Treasury of \$799,916. IAF identified \$772,907 of the difference, and determined the corrective actions to be taken. The residual difference of approximately \$27,009 remained unreconciled. Our review, however, indicated that the net unreconciled difference might consist of several large items that offset each other, and a series of other small individual items. In addition, we noted inadequate segregation of duties and a breakdown in established controls. We found that IAF's accountant was responsible for the recording, disbursing, certifying and reconciling of funds. Checks were issued to wrong payees and were later reissued without the receipt of the related credit from Treasury. These transactions were not recorded in IAF's books of records.

The loss of staff during the summer of 2000 affected IAF's ability to effectively accomplish its financial management tasks. IAF redistributed its resources to compensate for staff turnover in an effort to accommodate the workload. However, certain needed efforts, such as the Fund Balance with Treasury reconciliations were not accomplished.

Recommendations

We recommend that the Inter-American Foundation:

1. Complete all outstanding Fund Balance with Treasury reconciliations and resolve all differences.
2. Identify and propose correcting entries and explanations to ensure that IAF's balances agree with the Fund Balance with Treasury.
3. Establish and implement policies and procedures to ensure the timely preparation of the Fund Balance with Treasury reconciliations, and resolution of all significant differences.
4. Ensure that there is sufficient segregation of duties between recording, disbursing, and reconciling of IAF's accounting systems and funds, and that there is proper supervisory reviews of the financial management staff's work.

STATUS FOR FY 2001 AUDIT:

- Accounting functions were outsourced to the Administrative Resource Center (ARC) as of October 1, 2000.
- ARC performs the reconciliation monthly according to the process specified in the Treasury Financial Manual (TFM 2-5100), which includes policies that ensures that incompatible functions are segregated.
- The September 2000 reconciliation was reviewed and all unreconciled items were satisfactorily resolved. This condition was resolved in FY 2001.

Finding No. 3: Maintenance of Supporting Records for General Ledger Accounts

Grant Advances

IAF provides support through grant programs for individual self-help developmental projects, which are designed to improve the social and economic conditions of people in Latin America and the Caribbean. Once a grant agreement becomes effective, IAF periodically disburses funds to the grantees to facilitate the achievement of the objectives of the award. At the end of each fiscal year, some grantees have, in their possession, unexpended grant funds, which constitute an asset to the IAF. This asset, which is identified as grant advances, must be reported on IAF's balance sheet.

IAF's established procedure is to record all grant disbursements made during the fiscal year as fully expended. At the fiscal year-end, the grant advance amount is determined, and the applicable accounts are adjusted accordingly. Due to staff reduction and inadequate internal controls encompassing independent checks and verification, IAF was unable to prepare a complete, accurate, and reconciled analysis of the grant advances in a timely manner. On March 27, 2001, the grant advance schedule, which is needed for substantiating grant activities, was finalized. This schedule showed a grant advance balance of \$9 million, total grant disbursements for fiscal year 00 of \$14 million, and undelivered orders prior to the advance adjustment of \$27 million. Because of time constraints and the late finalization of the report, we were unable to perform the necessary tests to determine the accuracy and validity of the grant advance amounts.

Grant Receivables

IAF was unable to provide us with documentation necessary to substantiate the existence and completeness of grants receivable. IAF awards grants to grantees in Latin America and the Caribbean. When a grant is terminated or expires, pursuant to the grant agreement, the grantee is required to return all unspent funds to IAF. A final audit of the grantee, within a specified time period of the grant termination date, is also required. IAF's established policy is to request all unexpended funds from the grantee once the final audit is completed and the actual unexpended grant fund balance is established by the independent auditors. We noted that final audits were not performed, or were not performed within the prescribed time period for some terminated grants. In addition, we were unable to determine whether some final audits were performed and whether unexpended funds at grant termination were due to IAF, since IAF did not provide us with the pertinent grant audit folders.

Accounts Payable

We were unable to perform a search for unrecorded liabilities to identify expenditures subsequent to September 30, 2000, which should have been charged to net cost for the year ending September 30, 2000. BPD provided IAF with a general ledger, but that report did not contain sufficient detailed data to enable us to conduct our audit procedures. The financial reports of IAF should include detailed listings of transactions with sufficient information to facilitate identification of all expenditures, payees, appropriations and cost accounts charged, and such other information as is

necessary to locate related source documentation. In the case of unrecorded liabilities, such information would facilitate identification of payments which we would examine to determine if the agency had properly charged expenses to the correct accounting period.

Recommendations

We recommend that the Inter-American Foundation:

1. Establish policies and procedures to ensure that needed supporting source documents, such as an invoice for a cash disbursement, or a contract/agreement for an obligation, are properly prepared and maintained to support general ledger transactions.
2. Establish a filing system that ensures the maintenance and safeguarding of supporting source documents. This system should also enable the efficient retrieval of documents when necessary.
3. Establish procedures and an appropriate mechanism, such as summary schedules of transactions, to ensure the accuracy of account balances. These balances should be obtained by performing monthly reconciliation of schedules to general ledger account balances. Also, ensure that there are sufficient controls over the reconciliation, which should include independent checks and supervisory review for accuracy.
4. Establish reporting procedures on the results of the reconciliation performed in recommendation 3 above, in order to keep Senior Management apprised of any significant discrepancies in the general ledger.

STATUS FOR FY 2001 AUDIT

- A policy regarding record keeping procedures was issued and included in the organization's handbook.
- Documentation supporting financial transactions is filed and maintained in both IAF's and ARC's office facilities and is easily retrievable.
- There are established policies and procedures that ensure the accuracy of account balances. In addition, there appear to be sufficient independent checks and supervisory review to ensure the accuracy of account balances.

This condition has been resolved and will not be repeated in FY 2001.

Non-Compliance with Laws & Regulations Findings

Finding No. 1: Principal Financial Statements

Under the Government Management Reform Act of 1994, IAF is required to submit audited financial statements to OMB, and the appropriate Congressional Committees. However, IAF did not provide complete and reliable financial statements that could be directly tied to the general

ledger for the year ended September 30, 2000. The Bureau of the Public Debt (BPD) was retained as of October 1, 2000 to provide continuing accounting services and support, including assisting with closing fiscal year 2000 and compiling IAF's fiscal year 2000 financial statements. BPD compiled financial statements based on IAF's month 12 general ledger trial balances and adjusted those statements for prior year (fiscal year 1999) audit adjustments which were not previously recorded, fiscal year 2000 accruals, some differences between Fund Balance with Treasury and IAF's records, and other adjustments that BPD deemed necessary. We analyzed these statements to determine how they related to the general ledger, but were unsuccessful in determining the reasons for all the adjustments. The result was the nonexistence of an auditable set of Principal Financial Statements with a supporting general ledger necessary to perform our audit. Subsequently, a series of attempts were made by BPD to prepare revised financial statements, but those statements also included adjustments to various balances that could not be traced to the general ledger. Accordingly, we concluded that we could not rely on the financial statements presented, and attempted to audit the month 12 general ledger trial balance and IAF's proposed accruals.

The reasons for this noncompliance are as follows:

1. During the summer of 2000, IAF experienced staff turnover in its financial management division. This turnover led to redistribution of financial management functions to the remaining staff. It should be noted that there was not a reduction in the volume of transactions processed by the finance personnel. As a result, the capability of IAF to maintain the necessary systems to ensure accurate and complete financial statements was severely limited.
2. In order to compensate for the limited staffing, IAF retained the Bureau of the Public Debt to assist in year-end closing for fiscal year 2000. BPD began this process in September 2000, but was faced with the problem of limited ability of IAF staff to respond to their inquiries about transactions and balances. Accordingly, the value of BPD's assistance was greatly diminished. As noted above, BPD made several attempts to prepare complete and reliable financial statements, but had to do so with limited assistance from IAF.

Recommendations

We recommend that the Inter-American Foundation:

1. Establish policies and procedures to ensure that a general ledger which balances is maintained which would enable the complete, reliable, and timely preparation of the fiscal year-end Principal Financial Statements, as required by the Chief Financial Officers' Act.
2. Establish policies and procedures, to ensure that any significant changes, discrepancies or other items impacting the general ledger and Principal Financial Statements are supported and documented.

3. Prepare and provide all future Principal Financial Statements and accompanying general ledger to the independent auditors within 45 to 60 days after the end of the fiscal year.

STATUS FOR FY 2001 AUDIT:

- IAF has entered into a contract with the Administrative Resource Center (ARC) to provide procurement and accounting and reporting services. In addition, the Memorandum of Understanding between IAF and ARC provides for the production of accounting reports, including the general ledger, within 3 days after the close of the accounting period, except at year-end, when multiple closings of the general ledger are required;
- There is currently a balanced cumulative general ledger for FY 2001;
- The Administrative Resource Center did produce auditable financial statements for FY 2001 by January 14, 2002.

This condition was resolved in FY 2001.

Finding No. 2: Management Discussion and Analysis

One of the requirements of the Chief Financial Officers' Act of 1990 is the inclusion of Management's Discussion and Analysis of the financial and programmatic activities and achievements for the year in an organization's financial statements. The statements presented to us did not include this supplementary information.

IAF's stated reason for not preparing this information was that it was unaware of this requirement.

Recommendation

We recommend that the Inter-American Foundation:

Establish and implement policies and procedures to ensure that, as a part of its year-end process, and as part of its preparation of its Principal Financial Statements, the Management Discussion and Analysis be prepared and included in the annual audit of the Principal Financial Statements.

STATUS FOR FY 2001 AUDIT:

IAF has produced an MD&A that is fully compliant with SFFAS 15.

This condition was resolved in FY 2001.

Finding No. 3: Prompt Payment Act, The Prompt Payment Act requires Federal entities to make payments for property or services by the payment due date specified in the related contract or, if a payment date is not specified in the contract, generally 30 days after the invoice for the amount

due is received. If payments are not made within the appropriate time period, the entity shall pay an interest penalty. We examined a limited judgmental sample of invoices paid during fiscal year 2000. We found several instances of noncompliance with the provisions of the Prompt Payment Act. Because our sample was not random, we could not extrapolate the findings to the entire population of disbursements to estimate the total number of violations and associated interest expense.

IAF's reason for this noncompliance was the limited staff available, and the difficulties experienced in redistributing duties and ensuring timely completion of all tasks, including compliance with the Prompt Payment Act.

Recommendation

We recommend that the Inter-American Foundation:

1. Establish and implement, policies and procedures to ensure that payments to vendors or payees are made within the mandated timeframe.
2. Ensure that the required interest penalty is paid to the vendor or payee when payments are delinquent.

STATUS FOR FY 2001 AUDIT:

Our audit tests for FY 2001 revealed no material incidence of non-compliance with the Prompt Payment Act.

This condition was resolved in FY 2001.

Management Comments

Comments of the Inter-American Foundation (IAF) On Gardner, Kamya P.C. Draft Management Report

General Comments

We are pleased that no reportable conditions were identified during the audit of the Principal Financial Statements for the Fiscal Year Ended September 30, 2001. Our review of the two recommendations reported in the management report revealed that they center on services outsourced to other U.S. Government agencies.

Below are our comments on the recommendations.

Recommendation 1

- A. We are currently exploring the possibility of the U.S. Department of Interior's (USDI) National Business Center (NBC) producing a detailed Payroll Register as recommended. We have requested that USDI provide us with cost estimates to determine the cost feasibility of this report. A final determination as to whether the requested report warrants the probable outlay of resources will be made after all the relevant facts have been analyzed and evaluated.
- B. It is not possible or practicable to have the payroll costs distribution generated by NBC posted directly to the IAF's general ledger. NBC and BPD's systems and data are not currently compatible. We have reviewed proposals submitted by BPD to service our payroll needs. However, our review and analysis found that the additional cost was not justifiable or reasonable considering our limited resources.

Recommendation 2

Although we found no written recommendation from the OIG recommending that the IAF adopt an internal control checklist as part of its control policy to monitor the accounting and reporting by the service provider, we are exploring the feasibility of this suggestion. We do agree that it is good policy to have a procedure in place that will monitor the accuracy of the data and reports. However, we do not think it advisable for federal personnel to replicate work also being done at public expense. A final determination as to the extent and nature of a checklist will be made after the relevant facts have been analyzed and evaluated.